

PUBLIC DISCLOSURE

March 18, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

SAGE BANK

26467

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Division of Banks

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<p>NOTE: This document is an evaluation of the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Federal Deposit Insurance Corporation or the Division of Banks concerning the safety and soundness of this financial institution.</p>

TABLE OF CONTENTS

General Information.....	1
Institution CRA Rating.....	2
Scope of the Examination.....	3
Description of Institution.....	4
Description of Assessment Area	5
Conclusions With Respect to Performance Criteria	8
Appendix A – Massachusetts Division of Banks Fair Lending Policies and Procedures	A-1

GENERAL INFORMATION

The Community Reinvestment Act (“CRA”) requires the Massachusetts Division of Banks (“Division”) and the Federal Deposit Insurance Corporation (“FDIC”) to use their authority when examining financial institutions subject to their supervision, to assess the institution's record of meeting the credit needs of its community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agencies must prepare a written evaluation of the institution's record of meeting the credit needs of its assessment area.

*This document is an evaluation of the CRA performance of **Sage Bank (the “Bank”)**, prepared by the Division and the FDIC, the institution's supervisory agencies, as of **March 18, 2014**. The agencies evaluate performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all of the institution's branches. The Division and FDIC rate the CRA performance of an institution consistent with the provisions set forth in 209 CMR 46.00 and in Appendix A to 12 CFR Part 345.*

INSTITUTION'S CRA RATING: This institution is rated "Needs to Improve."

An institution in this group has a less than satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income ("LMI") neighborhoods, in a manner consistent with its resources and capabilities.

Under Section 345.28(c) of the FDIC's Rules and Regulations and 209 CMR 46.28(3) of the Division's regulations, evaluation of a bank's CRA performance is adversely affected by evidence of discriminatory or other illegal credit practices against applicants on a prohibited basis in violation of the Equal Credit Opportunity Act or the Fair Housing Act. Substantive violations of Regulation B, which implements the Equal Credit Opportunity Act, and the Fair Housing Act warranted the downgrade in the overall rating to "Needs to Improve." The comments below summarize the Bank's CRA performance.

Loan-to-Deposit Ratio

The loan-to-deposit ("LTD") ratio is more than reasonable (considering seasonal variations and taking into account lending-related activities) given the institution's size, financial condition, and assessment area credit needs. The Bank's average net LTD ratio over the 12 quarters since the prior CRA evaluation, dated January 18, 2011, was 111.5 percent.

Assessment Area Concentration

A majority of the Bank's home mortgage and small business loans are in the institution's assessment area. During 2012 and 2013, 69.6 percent of the total number of home mortgage loans, and 93.1 percent of the total number of small business loans were made inside the assessment area. A majority of the loans, by dollar amount, were also in the assessment area.

Borrower Characteristics

Overall, the distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels (including low- and moderate-income), and businesses of different revenue sizes. While the Bank's lending data reflected very positive performance, conclusions were adversely affected by evidence of discriminatory credit practices. The Bank exceeded the aggregate performance in percentage of home mortgage loans to low- and moderate-income borrowers in 2012. The percentage of loans made to low- and moderate-income borrowers increased from 2012 to 2013. Additionally, an adequate percentage of loans were made to small businesses.

Geographic Distribution

Overall, the geographic distribution of loans reflects reasonable dispersion throughout the assessment area. While the Bank's lending data reflected very positive performance, conclusions were adversely affected by evidence of discriminatory credit practices. The Bank exceeded the aggregate's performance in 2012 in making home mortgage loans in the area's low- and moderate-income geographies. Performance in low- and moderate-income geographies improved in 2013. Small business loans reflected reasonable dispersion throughout the assessment area.

Response to Complaints

Sage Bank did not receive any CRA-related complaints during the evaluation period.

SCOPE OF THE EXAMINATION

This evaluation assesses Sage Bank's CRA performance utilizing the interagency small bank examination procedures, as established by the Federal Financial Institutions Examination Council ("FFIEC"). These procedures evaluate a bank's CRA performance pursuant to the following criteria: LTD Ratio, Assessment Area Concentration, Borrower Characteristics, Geographic Distribution, and Response to CRA-Related Complaints. The evaluation analyzes an institution's performance in extending home mortgage, small business, and small farm loans during the evaluation period.

The review considered the Bank's home mortgage and small business lending. The Bank's most recent Report of Condition and Income ("Call Report"), dated December 31, 2013, indicated residential lending, including all loans secured by 1-4 family and multi-family residential properties, represented 82.3 percent of the loan portfolio. Business lending consisting of commercial real estate and commercial and industrial loans represented 16.7 percent of the loan portfolio. Residential lending represented a much larger portion of origination volume during the evaluation period; therefore, the Bank's performance in home mortgage lending carried much greater weight in arriving at conclusions. The Bank made no small farm loans during the review period; thus, this product line was not analyzed. Additionally, consumer lending data was not tracked or requested to be analyzed by the Bank for CRA purposes.

Data reviewed for the evaluation includes all originated home mortgage loans reported on the Bank's Home Mortgage Disclosure Act ("HMDA") loan application registers ("LARs") for 2012 and 2013. The LARs contain data about home purchase and home improvement loans, including refinances of 1-4 family and multi-family properties. The Bank reported 3,868 loans totaling over \$1.0 billion in 2012 and 3,075 loans totaling \$806.5 million in 2013. The Bank's home mortgage lending performance was compared against 2012 aggregate lending data. Aggregate lending data includes the lending activity of all institutions subject to HMDA reporting requirements within the Bank's assessment area. The evaluation focused on the Bank's lending performance in 2012, as aggregate lending data for 2013 was not yet available for this evaluation.

Small business loans were also reviewed for the same evaluation period. These are loans of \$1 million or less reported as commercial real estate or commercial industrial loans for Call Report purposes. Bank records indicated 9 small business loans totaling \$1.2 million in 2012, and 20 small business loans totaling \$7.8 million in 2013. Business demographics from the assessment area for 2012 and 2013 were used to measure the Bank's small business lending performance.

Demographic information from the 2010 United States ("U.S.") Census was referenced in this evaluation. Financial data was generally obtained from the December 31, 2012 Call Report. While the evaluation discusses the total dollar amounts of loans, conclusions were primarily based on the number of loans originated. The number of loans correlates more closely with the number of individuals or businesses that obtained loans. Extremely large or small dollar loans could skew conclusions.

PERFORMANCE CONTEXT

Description of Institution

Sage Bank is a Massachusetts (“MA”) chartered stock bank with its main office located at 18 Hurd Street in Lowell, Massachusetts. There is an additional full-service branch located on Rogers Street in Lowell. In addition to automated teller machines (“ATMs”) at each branch, the Bank also has four ATMs in Lowell, one in Dracut, and one in Pelham, New Hampshire (“NH”). Interactive teller machines are stationed at the Rogers Street branch and the Bank’s Lending and Operations Center at 15 Hurd Street in Lowell. Sage Bank also has 16 mortgage offices as of the evaluation date, most of which are in eastern Massachusetts, with one in Connecticut and one in New Hampshire.

Sage Bank offers residential, consumer, and commercial credit products. The Residential Lending Division of the Bank offers a wide range of home mortgage products. Just prior to the last evaluation, the Bank purchased the assets of Omega Mortgage, a Sudbury, MA based residential mortgage lender. Commercial lending products include commercial real estate, term, and construction loans, as well as lines of credit. The Bank also offers personal and business checking and savings accounts, including Everything Checking, which is a free checking account.

As of December 31, 2013, the Bank had total assets of \$215.1 million and total deposits of \$152.5 million. Total loans were \$199.2 million and represented 92.6 percent of total assets. The Bank’s total assets grew by 102.8 percent since the previous CRA evaluation, dated January 18, 2011. Significant loan volume from the Residential Lending Division was the primary factor for the Bank’s growth. Most originated loans were sold to the secondary market. Real estate loans secured by 1-4 family residential structures represent the Bank’s primary product at 70.0 percent, followed by commercial real estate loans at 14.0 percent

Table 1 illustrates the current distribution of the Bank’s loan portfolio.

Table 1 – Loan Portfolio Distribution as of December 31, 2013		
Loan Type	Dollar Amount \$('000s)	Percent of Total Loans
Loans Secured by Real Estate		
Construction, Land Development, and Other Land Loans	1,873	0.9
Revolving, Open-end Loans Secured by 1-4 Family Residential Properties and Extended Under Lines of Credit	25,866	13.0
Closed-end Loans Secured by 1-4 Family Residential Properties: Secured by First Liens	110,591	55.5
Closed-end Loans Secured by 1-4 Family Residential Properties: Secured by Junior Liens	2,895	1.5
Secured by Multi-Family (5 or more) Residential Properties	24,411	12.3
Secured by Nonfarm Nonresidential Properties	27,842	14.0
Commercial and Industrial	5,456	2.7
Loan to Individuals for Household, Family, or Other Personal Expenditures (Consumer Loans)	185	0.1
Other Loans	89	0.0
TOTAL LOANS	199,208	100.0%

Source: December 31, 2013 Call Report

No financial or legal impediments exist that would limit or impede the Bank's ability to meet the credit needs of the assessment area. The prior CRA performance evaluation was conducted by the Division and the FDIC as of January 18, 2011, using small bank procedures. The evaluation resulted in a "Satisfactory" rating by the FDIC and the Division.

Description of Assessment Area

The CRA requires the designation of one or more assessment areas within which a financial institution's record of helping to meet the credit needs of its community will be evaluated. The Bank has one designated assessment area that conforms to CRA requirements as it consists of whole geographies, does not arbitrarily exclude low- or moderate-income areas, does not extend beyond state boundaries, and does not reflect illegal discrimination.

Geographies

The assessment area consists of the following counties: Norfolk, Plymouth, and Suffolk counties, which are part of the Boston-Quincy, MA Metropolitan Division ("MD") #14484; Middlesex County, which is part of the Cambridge-Newton-Framingham, MA MD #15764; Essex County, which is part of the Peabody, MA MD #37764; and Rockingham County, which is part of the Rockingham County-Strafford County, NH MD #40484. The Bank's assessment area has been expanded since the previous CRA evaluation, which was due in large part to the acquisition of Omega Mortgage.

The *Geographic Distribution* section of the evaluation assesses the distribution of loans by census tract income level, especially in those designated low- and moderate-income. Each census tract is assigned an income level based on the median family income ("MFI") of the tract as compared to the MFI established for the MD in which the tract is located. The four income levels are defined as follows:

Low-Income: Less than 50 percent of MFI

Moderate-Income: At least 50 percent but less than 80 percent of MFI

Middle-Income: At Least 80 percent but less than 120 percent of MFI

Upper-Income: 120 percent or greater of MFI

Based on 2010 U.S. Census data, there are 100 low-income tracts, 193 moderate-income tracts, 388 middle-income tracts, 283 upper-income tracts, and 17 tracts for which the income level is not available.

Table 2 contains pertinent demographic information concerning the assessment area.

Table 2 – Assessment Area Demographic Information						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA
Geographies (Census Tracts)	981	10.2	19.7	39.6	28.8	1.7
Population by Geography	4,429,259	8.4	19.1	42.9	29.5	0.1
Owner-Occupied Housing by Geography	1,064,416	2.8	13.8	48.3	35.1	0.0
Businesses by Geography (2012)	446,452	5.8	13.7	42.0	38.3	0.2
Businesses by Geography (2013)	410,688	5.9	13.6	41.8	38.5	0.2
Distribution of Families by Income Level	1,067,471	22.1	16.6	20.8	40.5	0.0
Median Family Income (MFI)	\$93,609	Median Housing Value Unemployment Rate Families Below Poverty Level			\$425,527 6.9% 6.6%	
MD #14484 MFI, 2012	\$88,000					
MD #15764 MFI, 2012	\$106,400					
MD #37764 MFI, 2012	\$87,300					
MD #40484 MFI, 2012	\$88,800					

Source: 2010 U.S. Census; 2012 FFIEC Estimated Median Family Incomes

Median Family Income Levels

The analysis under the *Borrower Characteristics* section of the evaluation is based on the distribution of home mortgage loans to borrowers of different incomes, using the same four income levels defined in the previous section. The analysis utilizes income data from the 2010 U.S. Census that has been annually adjusted by the FFIEC for inflation and other economic events. The estimated 2012 MFI figures for the MDs in the Bank's assessment area are listed in Table 2.

The analysis of the Bank's home mortgage lending also includes comparisons to the distribution of assessment area families by income level. Table 2 reveals there is a higher representation of upper-income families compared to other income categories. Low- and moderate-income families represent 38.7 percent of all families in the assessment area. Of all the families in the assessment area, 6.6 percent are below the poverty level.

Housing Characteristics

Table 2 also illustrates the distribution of owner-occupied housing units by census tract income level. Table 2 shows that owner-occupied housing units in the assessment area are heavily concentrated in middle-income census tracts. Only 2.8 percent of total owner-occupied units are in the low-income tracts. This limits opportunities to make home mortgage loans in low-income census tracts.

Unemployment Data

The unemployment rate in the assessment area was 6.9 percent based on the 2010 U.S. Census. State and county unemployment rates were obtained from the Bureau of Labor Statistics. In 2012, the Massachusetts and New Hampshire unemployment rates were 6.8 percent and 5.5 percent, respectively. The unemployment rates of counties within the assessment area ranged from a low of 5.3 percent in Middlesex County to a high of 7.1 percent in Essex County.

Business Demographic Data

Table 2 provides the distribution of businesses by tract income level in the assessment area for 2012 and 2013. Businesses are more concentrated in middle- and upper-income tracts compared to the distribution of tracts by income level. The *Borrower Profile* section of the Lending Test is based in part on the Bank's lending to the area's small businesses, which are defined as businesses with gross annual revenues ("GARs") of \$1.0 million or less. The percentage of assessment area businesses that met this definition was 71.7 percent in 2012 and 72.1 percent in 2013.

Competition

The Bank faces strong competition from other financial institutions that originate home mortgage loans within the assessment area. These institutions range in size and type from small credit unions and mortgage companies to large national banks. Among the more prominent lenders competing with Sage Bank are Wells Fargo Bank, N.A.; JPMorgan Chase Bank, N.A.; and US Bank, N.A. The 2012 aggregate mortgage data shows that 687 lenders originated 297,394 residential mortgage loans in the Bank's assessment area. Sage Bank was ranked 27th with a 0.9 percent market share.

Community Contact

As part of the evaluation process, local community, governmental, or economic development representatives are contacted to assist in assessing the housing and general banking needs of the community. Relevant information obtained from such sources helps to determine whether local financial institutions are responsive to the credit needs of their communities and what further opportunities, if any, are available. Information provided by two such contacts was referenced in preparing this evaluation. Both Lowell-based organizations provide homeownership education workshops for residents of Lowell and the greater Merrimack Valley. The organizations also offer other housing services for low- and moderate-income individuals and families.

One contact expressed that many local institutions offer flexible housing products through MassHousing and Massachusetts Housing Partnership. The contact hopes more institutions will offer these programs to expand homeownership opportunities. The contact also mentioned that local financial institutions could promote the use of the City of Lowell's HOME Program. This program uses federal funds to provide down payment and closing cost assistance for first-time home buyers.

The other contact indicated that increasing home values and the general high cost of living makes homeownership very difficult for low- and moderate-income families. Low down payment financing and down payment assistance programs are critical for these income groups. Flexible underwriting for affordable properties with deed restrictions is also important to making homeownership possible for these families.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Substantive violations of the Fair Housing Act and Regulation B, which implements the Equal Credit Opportunity Act, warranted the downgrade in the overall CRA rating, despite the Lending Test ratings.

The Lending Test considers the institution's performance pursuant to the following criteria: LTD Ratio, Assessment Area Concentration, Borrower Characteristics, Geographic Distribution, and Response to CRA Complaints. Overall, the Bank's performance under the Lending Test is "Satisfactory." This rating indicates the Bank's lending performance demonstrates reasonable responsiveness to the credit needs of the assessment area.

Loan-to-Deposit Ratio

The LTD performance criterion measures the percentage of the Bank's deposit base reinvested in the form of loans. The Bank's LTD ratio is more than reasonable (considering seasonal variations and taking into account lending-related activities) given the institution's size, financial condition, and assessment area credit needs. The Bank's average net LTD ratio over the 12 quarters since the previous CRA evaluation was 111.5 percent. The Bank's net LTD ratio as of December 31, 2013, was 129.7 percent.

Growth patterns of loans and deposits were also analyzed to assess changes in the net LTD ratio over the course of the review period. Net loans (total loans net of unearned income and allowance for loan losses) increased substantially during the review period. Net loans were highest at the most recent Call Report. Overall, net loans increased by 97.3 percent over the last 12 quarters. Total deposits increased to a lesser degree during the evaluation period, at 65.8 percent. Total deposits declined slightly from 2012 to the end of 2013. As a result of loan growth exceeding deposit growth, the net LTD ratio increased during the evaluation period.

The Bank's average net LTD ratio was compared to the average net LTD ratios of five other locally-based, similarly situated depository institutions utilizing the period of March 31, 2011 to December 31, 2013. Each institution is headquartered in Sage Bank's assessment area, had similar loan product distribution, and had total assets between \$100 million and \$350 million as of December 31, 2013. The Bank had the highest average net LTD ratio of these institutions. Table 3 provides further details.

Table 3 – Loan-to-Deposit Comparison		
Bank Name	Total Assets \$(000) as of 12/31/13	Average Net LTD Ratio 03/31/11 – 12/31/13
Sage Bank	215,064	111.5
BankGloucester	192,186	101.1
Haverhill Bank	318,752	88.6
Equitable Co-operative Bank	103,205	82.1
The Cooperative Bank	293,688	79.9
Washington Savings Bank	191,156	77.9

Source: March 31, 2011 through December 31, 2013 Call Reports

Assessment Area Concentration

This performance criterion evaluates whether the Bank is meeting the credit needs within its assessment area by evaluating the amount of lending conducted within the assessment area. The analysis includes both residential and small business lending. As stated previously, significantly more weight was placed on residential lending performance. Table 4 illustrates the Bank's record of originating loans inside and outside the assessment area during the evaluation period.

Table 4 – Distribution of Loans Inside and Outside of Assessment Area										
Loan Category or Type	Number of Loans					Dollar Volume				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$ ('000s)	%	\$ ('000s)	%	\$ ('000s)
Home Mortgage Loans										
2012										
Home Purchase	851	72.1	329	27.9	1,180	225,807	76.7	68,581	23.3	294,388
Refinance	1,830	69.5	803	30.5	2,633	518,630	72.4	197,849	27.6	716,479
Home Improvement	36	65.5	19	34.5	55	9,491	70.3	4,004	29.7	13,495
Total	2,717	70.2	1,151	29.8	3,868	753,928	73.6	270,434	26.4	1,024,362
2013										
Home Purchase	925	67.7	442	32.3	1,367	258,309	72.6	97,500	27.4	355,809
Refinance	1,168	69.6	510	30.4	1,678	323,239	73.1	118,807	26.9	442,046
Home Improvement	23	76.7	7	23.3	30	7,356	85.5	1,245	14.5	8,601
Total	2,116	68.8	959	31.2	3,075	588,904	73.0	217,552	27.0	806,456
Total Home Mortgage	4,833	69.6	2,110	30.4	6,943	1,342,832	73.3	487,986	26.7	1,830,818
Small Business Loans										
2012	9	100.0	0	0.0	9	1,199	100.0	0	0.0	1,199
2013	18	90.0	2	10.0	20	6,507	83.7	1,265	16.3	7,772
Total Small Business	27	93.1	2	6.9	29	7,706	85.9	1,265	14.1	8,971
Grand Total	4,860	69.7	2,112	30.3	6,972	1,350,538	73.4	489,251	26.6	1,839,789

Source: 2012 and 2013 HMDA LARs, Bank Small Business Records

As shown in Table 4, a majority of the Bank's residential and small business loans, by number and dollar amount, were inside the assessment area. The following sections detail the Bank's performance by loan type.

Home Mortgage Lending

Sage Bank originated a majority of home mortgage loans inside its assessment area in 2012 and 2013. The percentage of loans in the assessment area was relatively consistent for both years. The volume of loans was strong in both years, but declined in 2013. Management attributed the decrease in lending to increased interest rates, which reduced the number of refinance loans. Despite the decrease in overall loans, home purchase loans increased in 2013. Management indicated there was an emphasis on making home purchase loans. This strategy included building relationships with community housing organizations that offer support and education to first time home buyers.

The Bank's assessment area lending was compared to all lenders subject to HMDA. The institution ranked 27th out of 687 lenders in the assessment area in 2012, capturing 0.9 percent of the market share. Sage Bank trailed one local bank and a mortgage company owned by a local bank. The remaining market leaders were large national or regional banks, as well as large mortgage companies.

Small Business Lending

Small business lending was also analyzed to determine the percentage of loans within the assessment area. All small business loans in 2012 were made in the assessment area. The number of originations in the assessment area increased in 2013, with a significant majority still inside the assessment area. Bank management attributed the increase in small business loan originations to more resources being devoted to commercial lending.

Borrower Characteristics

Overall, the distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels, including low- and moderate-income, and businesses of different sizes. While the Bank's lending data reflected very positive performance, conclusions were adversely affected by evidence of discriminatory credit practices. The following sections discuss the Bank's performance by loan type.

Home Mortgage Lending

The Bank's performance is considered reasonable. Borrower incomes for loans reported in 2012 and 2013 were compared to the MFI of the appropriate MD. Table 5 shows the Bank's loans by borrower income level in 2012 and 2013. Table 5 also includes the distribution of families by income level using the appropriate U.S. Census data, as well as aggregate market data for 2012.

Table 5 – Distribution of Home Mortgage Loans by Borrower Income Level						
Income Level	% of Total Families	2012 Aggregate Lending Data (% of #)	2012 Bank		2013 Bank	
			#	%	#	%
Low	22.1	5.0	186	6.8	169	8.0
Moderate	16.6	15.5	621	22.9	520	24.6
Middle	20.8	23.8	732	26.9	612	28.9
Upper	40.5	42.4	1,021	37.6	735	34.7
NA	0.0	13.3	157	5.8	80	3.8
Total	100.0	100.0	2,717	100.0	2,116	100.0

Source: 2010 U.S. Census Data; 2012 and 2013 HMDA Data

Sage Bank's distribution of loans to low-income borrowers was above the aggregate lending data in 2012. Although the Bank's performance was less than the percentage of low-income families, this is reasonable considering that 29.9 percent of low-income families were below the poverty level based on 2010 U.S. Census data. Many low-income families would not qualify for a home mortgage loan. The Bank was ranked 15th in the assessment area out of 385 HMDA reporting institutions in lending to low-income borrowers, with a market share of 1.2 percent. The Bank excelled in making home purchase loans to low-income borrowers, ranking 9th and capturing 2.1 percent of this market. The number of loans to low-income borrowers declined in 2013, but the percentage of loans increased.

The Bank's distribution of loans to moderate-income borrowers was greater than the aggregate market and the percentage of moderate-income families in 2012. Sage Bank was ranked 18th in lending to these borrowers with a 1.3 percent market share. The market was highly competitive as 479 lenders made loans to moderate-income borrowers in the assessment area in 2012. The Bank was ranked 15th with a market share of 1.9 percent for home purchase loans to moderate-income

borrowers. The percentage of loans to moderate-income borrowers increased in 2013. The Bank's performance in 2013 was greater than the percentage of moderate-income families.

Bank management indicated that its products and participation in residential mortgage loan programs targeting LMI borrowers is the primary reason for the Bank's performance under this criterion. Specifically, the offering of programs with down payment assistance for first time home buyers resulted in Sage Bank originating home purchase loans to LMI borrowers.

Small Business Lending

The distribution of the Bank's small business loans by GAR is reasonable. In 2012, the Bank's lending to businesses with GARs of \$1 million or less, at 55.6 percent, was below the percentage of total businesses, at 71.7 percent, within the assessment area with GARs of \$1 million or less. In 2013, the Bank's performance improved to 83.3 percent, which exceeded the percentage of businesses with GARs of \$1 million or less, at 72.1 percent. The increasing trend from 2012 to 2013 supports the Bank's reasonable performance.

Geographic Distribution

Overall, the geographic distribution of home mortgage and small business loans reflects reasonable dispersion throughout the assessment area. While the Bank's lending data reflected very positive performance, conclusions were adversely affected by evidence of discriminatory credit practices. The following sections discuss the Bank's performance under this criterion with regard to each product line.

Home Mortgage Lending

The distribution of the Bank's home mortgage loans reflects reasonable dispersion throughout the assessment area. Table 6 presents the Bank's home mortgage lending performance by number of loans in 2012 and 2013, as well as aggregate lending data for 2012. Table 6 also includes the percentage of owner-occupied housing units for each census tract income level for comparison purposes.

Table 6 – Distribution of Home Mortgage Loans by Census Tract Income Level						
Census Tract Income Level	% of Total Owner-Occupied Housing Units	2012 Aggregate Lending Data (% of #)	2012 Bank		2013 Bank	
			#	%	#	%
Low	2.8	2.2	99	3.6	125	5.9
Moderate	13.8	10.1	423	15.6	394	18.6
Middle	48.3	44.3	1,304	48.0	1,033	48.8
Upper	35.1	43.4	891	32.8	564	26.7
Total	100.0	100.0	2,717	100.0	2,116	100.0

Source: 2010 U.S. Census Data; 2012 and 2013 HMDA Data

Sage Bank's dispersion of loans in low-income geographies exceeded aggregate lending data in 2012 and the distribution of owner-occupied housing. The Bank ranked 17th in lending in low-income tracts in the assessment area, with a market share of 1.4 percent. There was significant competition in these geographies, as 317 HMDA reporters made at least 1 loan in the low-income tracts in 2012. The Bank was the top local lender for home purchase loans in low-income geographies, ranking 9th overall and capturing 2.6 percent of the market. The number of loans in

low-income tracts grew by 26.3 percent in 2013, despite an overall decline in originations. The number of loans decreased in all other tract income levels. Sage Bank originated loans in 51 of the low-income tracts in the assessment area, which is 51.0 percent of all low-income tracts.

The Bank's dispersion of loans in moderate-income tracts in 2012 was also greater than the aggregate market and the distribution of owner-occupied housing. Sage Bank was ranked 15th in lending in these geographies with a 1.4 percent market share. There was a high level of competition as 463 lenders made loans in the moderate-income tracts in 2012. The Bank was ranked 13th with a share of 2.0 percent for home purchase loans in moderate-income tracts, trailing only one local bank. The percentage of loans in moderate-income geographies increased in 2013. The Bank's performance in 2013 also exceeded the percentage of owner-occupied housing in moderate-income tracts. Sage Bank originated loans in 141 moderate-income tracts in the assessment area, which is 73.1 percent of all moderate-income tracts.

As noted previously, Bank management attributed its performance to LMI borrowers and in LMI geographies to its access to programs that offer flexible underwriting and down payment assistance.

Small Business Lending

The geographic distribution of small business loans reflects reasonable dispersion throughout the assessment area. Of the 9 small business loans originated in the Bank's assessment area in 2012, 1, or 11.1 percent, was made in a low-income tract and 2, or 22.2 percent, were made in moderate-income tracts. This performance exceeded the distribution of businesses by tract income level, as 5.8 percent of businesses were in low-income tracts and 13.7 percent were in moderate-income tracts.

In 2013, the Bank increased its loans in the assessment area to 18. Of these loans, 2 were made in low-income geographies and 6 were made in moderate-income geographies, representing 11.1 percent and 33.3 percent of total lending, respectively. The distribution of loans in low- and moderate-income tracts again exceeded the distribution of businesses, as 5.9 percent of businesses were in low-income tracts and 13.6 percent were in moderate-income tracts. Since the volume of small business loans is low, the addition or subtraction of a loan in any income category could have a large effect on the distribution percentages. As a result, less weight was placed on the Bank's small business lending performance.

Response to CRA Complaints

Sage Bank did not receive any CRA-related complaints during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Substantive violations of the Fair Housing Act and Regulation B, which implements the Equal Credit Opportunity Act, were identified during a fair lending review of the Bank as of May 13, 2013. The violations are considered to be bank wide, although limited to one product line. In consideration of the seriousness of these violations, the institution's CRA performance has been lowered to an overall "Needs to Improve" rating.

APPENDIX A

MINORITY APPLICATION FLOW

According to the 2010 U.S. Census Data, the Bank's assessment area contained a total population of 4,429,259 individuals, of which 25.6 percent are minorities. The assessment area's minority and ethnic population consists of 6.8 percent Black/African American, 6.6 percent Asian/Pacific Islander, 0.1 percent American Indian, 9.2 percent Hispanic or Latino and 2.9 percent other race.

For 2012 and 2013, the Bank received 6,887 HMDA reportable loan applications from within its assessment area. In 2012, the Bank received 328 applications from minorities. Of these applications, 207 or 63.1 percent resulted in origination. Aggregate lenders originated 72.7 percent of applications received from minority applicants in 2012. During the same time period, the Bank also received 371 applications from ethnic groups of Hispanic origin within its assessment area, of which 63.6 percent resulted in originations. Aggregate lenders originated 65.4 percent of applicants received from ethnic groups of Hispanic origin.

The Bank received 8.5 percent of its applications from minorities in 2012, which was in line with aggregate lenders at 8.8 percent. In 2013, the Bank's performance increased slightly to 8.8 percent.

In 2012 the Bank received 9.6 percent of its applications from ethnic minorities while the aggregate received 2.7 percent for ethnic minorities. In 2013, the Bank's level of ethnic minority applicants rose to 11.4 percent. Refer to the table below for information on the Bank's minority application flow as well as the aggregate lenders in the Bank's assessment area.

Table A1 – Minority Application Flow					
RACE	Bank 2012		2012 Aggregate Data	Bank 2013	
	#	%		#	%
American Indian/ Alaska Native	3	0.1	0.1	0	0.0
Asian	136	3.5	5.6	120	4.0
Black/ African American	128	3.3	1.8	107	3.5
Hawaiian/Pac Isl.	4	0.1	0.1	2	0.1
2 or more Minority	2	0.1	0.0	2	0.1
Joint Race (White/Minority)	55	1.4	1.2	33	1.1
Total Minority	328	8.5	8.8	264	8.8
White	3,221	83.7	67.4	2,427	79.9
Race Not Available	300	7.8	23.8	347	11.4
Total	3,849	100.0	100.0	3,038	100.0
ETHNICITY					
Hispanic or Latino	328	8.5	1.9	313	10.3
Not Hispanic or Latino	3,183	82.7	73.5	2,341	77.1
Joint (Hisp/Lat /Not Hisp/Lat)	43	1.1	0.8	32	1.1
Ethnicity Not Available	295	7.7	23.8	352	11.6
Total	3,849	100.0	100.0	3,038	100.0

Source: 2012 and 2013 HMDA LAR, 2012 HMDA Aggregate Data

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations, and Part 345 of the Federal Deposit Insurance Corporation's Rules and Regulations, require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks and the Federal Deposit Insurance Corporation, at 18 Hurd Street, Lowell, MA 01852."

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agencies, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.